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STATE FOR EAP/CM AND EEB/IFD/OMA; TREASURY FOR OASIA AND
CUSHMAN

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TAGS: [EFIN](#) [ECON](#) [HK](#) [CH](#)

SUBJECT: HONG KONG HAS HIGH HOPES FOR RMB SETTLEMENT

REF: HONG KONG 530

Classified By: Consul General Joe Donovan, Reason 1.4 b/d

11. (C) Summary: The Hong Kong Monetary Authority Chief Executive Joseph Yam will travel to Beijing this week to sign an agreement to launch Chinese currency trade settlement in Hong Kong. While the scheme will eventually include Macau and ASEAN countries, Yam believes the large majority of transactions will pass through Hong Kong's world-class financial system. He predicted that this new facility would eventually lead to the development of a Renminbi interbank market in Hong Kong. End Summary.

12. (C) Hong Kong Monetary Authority (HKMA) Chief Executive Joseph Yam met with U.S. Consul General Donovan March 20 to discuss Hong Kong's economy, the upcoming G20 meetings in London (reftel) and implementation of new financial initiatives, including Hong Kong's use of Renminbi (RMB) for trade settlement.

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Yam to Sign Off on RMB Settlement Plan
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13. (C) Yam was pleased that the Chinese authorities have decided to support a plan to launch a pilot program for RMB trade settlement between manufacturers in Guangdong Province and the Yangtze River Delta region and customers in Hong Kong. ASEAN countries trading with Guangxi and Yunnan-based manufacturers may also be able to participate in the future, said Yam, but the large majority of transactions are likely to flow through Hong Kong. Yam will travel to Beijing the week of March 23 to sign an agreement with the People's Bank of China that will underpin the scheme.

14. (C) Yam said he has been an advocate for Chinese currency liberalization since 2001. At that time he had approached the Chinese authorities to allow RMB currency exchange in Hong Kong as a way to bring the already thriving black-market currency trade into the light. Doing so made possible the development of Hong Kong's real-time payment system for RMB clearing and allowed the issuance of RMB bonds in Hong Kong, both unique outside mainland China.

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Next Stop, RMB Interbank Market?
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15. (C) The Chinese authorities would eventually like to see the RMB become a regionally important currency, said Yam. Allowing RMB trade settlement for selected companies and banks is another step on the road to opening China's capital account. The Chinese authorities are in the process of identifying a few hundred enterprises that will be authorized to settle contracts in RMB. He was optimistic that the RMB trade settlement program in Hong Kong would lead to the development of an interbank market for RMB in Hong Kong and would bolster Hong Kong's status as an international financial center.

